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Antelope Valley Report Released by State Auditor Mike Foley Significant Accounting Lapses Found

State Auditor Mike Foley announced today the release of his office's audit report on the Antelope Valley Project (Project). The report identifies material weaknesses in the accounting for the Project and documents millions of dollars of expenses associated with the Project that have not been previously disclosed to the public. The report included testing of transactions for the five year period, September 1, 2004, through August 31, 2009, and describes the auditor's attempts to accumulate Project costs from the date of inception.

The Antelope Valley Project is a transportation, flood control, and urban revitalization public works project coordinated by a joint entity known as the Joint Antelope Valley Authority (JAVA) funded by a complex mix of Federal, State and Local tax dollars. The JAVA partners include the City of Lincoln (City), University of Nebraska at Lincoln (UNL), and the Lower Platte South Natural Resources District (LPSNRD). Other key players in the effort are also described, including the Nebraska Department of Roads (NDOR), the Federal Highway Administration (FHWA), and the US Army Corp of Engineers – all of whom play significant roles in the financing and oversight of the quarter-billion dollar Project.

The City of Lincoln serves as JAVA's accountant for the Project.

Foley noted, "No one can fully identify the actual Antelope Valley Project costs to the taxpayers because of the fragmented and sometimes erroneous manner of accounting for costs. I have no doubt that the previously published financial statements of JAVA are simply wrong and will now need to be adjusted to reflect this new information."

For example, the State audit team found over \$7 million in Antelope Valley costs in the City of Lincoln's Departments of Urban Development and Parks & Recreation that were not previously reported as part of the financial reports of JAVA.

Another of the Antelope Valley partners, UNL, spent nearly \$5 million for the purchase of a property to serve as UNL's facilities and parking displaced by the Project. UNL shows the property on its books as an asset but never recorded about \$4 million of the revenues and expenses associated with this purchase in its accounting system, thus distorting its financial statements.

The auditors also found a \$3.8 million variance in the valuation of donated land used for the Project, thus distorting the equity ownership interests among the JAVA

partners. This will also need to be adjusted in the JAVA financial statement audit. In addition, the State audit report provides over \$1 million of other errors found during audit testing of expenditures. For example, the City overbilled JAVA \$138,512 in overhead costs due to an error in entering the amount into the system as a percentage rate rather than the correct hourly rate.

The City of Lincoln entered into a \$3 million engineering services contract with Parsons Brinckerhoff that has now grown to over \$32 million. JAVA also entered into a separate \$2 million contract with the same firm for construction management services, which has now grown to over \$13 million. The audit expresses concerns, also communicated by the Federal Highway Administration, that challenge the use of the same firm for both engineering and construction management services due to the potential for conflicts of interest. The auditors note that without a separation of contractual providers, the City and JAVA may not be getting fair and reasonable prices for these services.

The audit discusses the substantial growth in the above contracts and the inclusion of tens of millions of dollars in contract amendments that are outside of the original work requested and awarded through the competitive bidding process. The report recommends that future contract amendments be competitively bid to ensure the best use of public funds.

The auditors studied the allocation of Project cost responsibilities between the various Federal and local funding sources and determined that accounting inadequacies may result in the need to return Federal funds previously received. Millions of dollars in Federal funds have been drawn down and spent to cover Project costs based on initial cost allocation estimates that have since changed. The auditors strongly question whether Project accountants will ever be able to properly reconcile the final cost responsibilities with actual costs incurred thus placing Federal funds already spent in jeopardy of recapture.

The auditors also criticized the Nebraska Department of Roads (NDOR), which serves as the conduit for Federal funds from the Federal Highway Administration. The failure of NDOR to document the approval of dozens of construction change orders involving some \$1.8 million in Federal funds increases the risk that the cost of the unapproved change orders may ultimately be disallowed by the Federal government. Foley noted that he now better understands the frustrations expressed by the FHWA at the practices and lack of controls of the Nebraska Department of Roads.

The auditors also found that NDOR made an error in excessively drawing down over \$500,000 in Federal funds now due to the City of Lincoln and that NDOR could not identify the specific transactions that caused the error to go undetected for almost two years before being brought to light by the State audit team. Communication deficiencies between the City and NDOR caused the City also to be unaware of the error. The auditors fault NDOR for having inadequate monitoring procedures to ensure all Project costs are truly eligible for Federal reimbursement.

The Antelope Valley Project involved property acquisition and related costs in excess of \$21 million for dozens of properties held by other parties. The auditors examined some of these transactions and found numerous errors, including one instance where the prior property owner was overpaid \$214,500 by the City of Lincoln, on behalf of JAVA. The report also discusses nearly \$700,000 in payments deemed to be questionable due to lack of supporting documentation or non-compliance with Federal regulations.

The State auditors consulted with experts from the FHWA on the review of construction project change orders for the Antelope Valley Project. FHWA reviewed some of the change orders and found some \$2.8 million in costs that may not qualify for Federal funding. The report includes a memo from the FHWA on the nature of their work and the compliance deficiencies the FHWA identified.

Finally, the report contains information on the tens of millions of dollars paid to sub-consultants and vendors who worked on the Project.

A copy of the report may be found on the Nebraska State Auditor's website (see link below) under "What's New"

<http://www.auditors.state.ne.us>

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